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SUBJECT: ACCOUNTING STANDARDS: AEGON CFO REVIEWS STATE OF
PLAY; CALLS FOR U.S.-EUROPEAN CONVERGENCE

1. Jos Streppel, the Chief Financial Officer of AEGON, a large Netherlands-based insurance group also active in the U.S., met with the Ambassador July 28 to review current efforts to unify European accounting standards and to achieve greater harmonization between the U.S. and Europe in this area. Streppel, who serves as chairman of the CFO Forum of the 20 leading European insurance companies, was reasonably confident that agreement would be reached on the EU-wide adoption of International Accounting Standards (IAS). Somewhat surprisingly, he did not single out French opposition to the proposed IAS-39 rule on the valuation of derivatives and other financial instruments as being the most difficult obstacle standing in the way of agreement; he thought that the French would bargain hard but eventually join with the European consensus on this issue. Instead, Streppel suggested, the quieter but firm opposition of the Spanish and Italians would be a more difficult problem to be overcome.

2. Streppel repeated the view expressed by the European Accounting Forum that the mark-to-market rule in the proposed IAS-39, which is closer to U.S. accounting practice, would lead to greater volatility on corporate balance sheets and thus tend to increase the cost of capital. He noted that, particularly for insurance companies, with the long duration of their liabilities, fixing the value of those liabilities by market prices prevailing on a single date (e.g., December 31) made little sense. Nonetheless, he said, the goal for U.S. and European regulators over the next several years should be to achieve convergence between the IAS and U.S. GAAP. Phase 2 of the adoption of the IAS, expected in 3-4 years, would be a good target date for such convergence. Failing that, Streppel said, he hoped that the U.S. and Europe could at least agree on the mutual recognition of IAS and GAAP, eliminating the need for companies listed on both sides of the Atlantic to maintain two sets of books.

3. Asked about what particular regulatory issues AEGON faces in the U.S., where it is the No. 3 life insurance provider (through ownership of Transamerica and some 20 other companies), Streppel mentioned (a) the issue of dealing with 50 state regulatory authorities, (b) the longer approval process for new products and services faced by insurance companies than by banks (insurance companies require explicit regulatory approval for each such product, whereas banks do not), and (c) the potential for different solvency requirements for insurance companies operating in the U.S. and Europe when the EU adopts its "Solvency II" rules, akin to the banks' Basel II, in several years. Streppel again hoped that harmonization of such solvency rules between the U.S. and Europe could be achieved.

SOBEL